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Small and Medium-sized Transnational Corporations

Executive Summary and Report on the Osaka Conference

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Programme on Transnational Corporations

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Use of a hyphen (-) between dates representing years, e.g., 1985-1989, signifies the full period involved, including the beginning and end years.

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NOTE

The UNCTAD Programme on Transnational Corporations of the United Nations serves as the focal point within the United Nations Secretariat for all matters related to transnational corporations. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975-1992) and the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992-1993). In 1993, the Programme was transferred to the United Nations Conference on Trade and Development. The objectives of the work programme include to further the understanding of the nature of transnational corporations and of their economic, legal, political and social effects on home and host countries and in international relations, particularly between developed and developing countries; to secure effective international arrangements aimed at enhancing the contribution of transnational corporations to national development and world economic growth; and to strengthen the negotiating capacity of host countries, in particular developing countries, in their dealings with transnational corporations.

The term "country" as used in this Report also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

PREFACE

This volume was prepared in response to a large number of inquiries from Governments, academia, business associations as well as small and medium-sized enterprises about a recent publication, *Small and Medium-sized Transnational Corporations: Role, Impact and Policy Implications* (United Nations publication, Sales No. E.93.II.A.15). The publication contained an analysis of various facets of foreign direct investment and international production by small and medium-sized enterprises which comprise a dynamic and important part of the world economy. Many of the inquiries included a request as to whether a summary could be made available of the 228-page publication. The first part of this volume contains therefore an executive summary of this publication, to make the main findings of the project on small and medium-sized transnational corporations contained in the above-mentioned publication easily accessible.

The second part of the volume contains the report on the *International Forum on Small and Medium-sized Enterprises and Development: Role of Foreign Direct Investment*, held in Osaka, Japan, 8-9 September 1993, during which the publication was used as the principal background documentation. This conference attracted a large number of participants, including government officials and small and medium-sized enterprises. About 700 people from various countries attended the conference. The significant attention received by the conference warrants reporting the results of the conference to a wider audience through this volume.

The research project and the publication on small and medium-sized transnational corporations were made possible by

a generous financial contribution from the Government of Japan which also in part financed the Osaka Forum. The Osaka Prefectural Government, the Osaka City Government and the Osaka Chamber of Commerce and Industry also provided significant assistance as co-organizers of the Osaka Forum.

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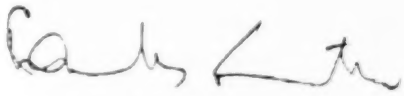

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PART ONE

AN EXECUTIVE SUMMARY OF *SMALL AND MEDIUM-SIZED TRANSNATIONAL CORPORATIONS: ROLE, IMPACT AND POLICY IMPLICATIONS*

I. THE IMPORTANCE AND ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN HOME ECONOMIES

Small and medium-sized enterprises (SMEs) play a significant role in the domestic economies of most countries around the world. This is the case in terms of the relative number of SMEs in the population of firms, their share of total employment, or their contribution to value added. However, SMEs are not as yet as fully represented in the international economy as large firms; and though this is rapidly changing, a principal finding is that a degree of assistance in furthering this process would be of considerable all-round benefit.

Overall situation. In contradistinction to the situation today, until the mid-1970s the concentration and centralization of economic activity was considered the main source of competitiveness. For instance, it was argued in the 1960s that European countries should organize their economic activities into larger units in order to become more competitive and avert the threat of domination by large United States companies. This perspective resulted in a process of rationalization which reduced the share of SMEs in many economies, perhaps most dramatically in the United States where the share of SMEs in GNP reached a low of 39 per cent, a drop from 43 to 44 per cent in the 1950s and early 1960s.

The period following the 1974 oil crisis, however, resulted in a rekindling of interest in SMEs and their potential contribution to economic growth. Many large firms failed to adjust to abrupt changes in demand and relative costs, partly resulting in stagnant investment, inflation and unemployment. It was believed that, because they were individually owned or operated by a small group of managers, they would respond more rapidly to changed conditions than large firms and thereby contribute to job generation, innovation and new organizational structures. As a result of this renewed emphasis, SMEs now account for more than one half of the total share on a number of measures in most economies. These measures include employment, sales and value-added. Many economies with high shares of SMEs in their economies such as Japan and the Republic of Korea are among the most successful in the world. Moreover the contribution of SMEs is rising in most economies, although in some areas, for example wholesale and retail trade in Sweden and the United States, their role is declining.

Contribution to jobs. Although the labour-capital ratio varies from country to country and industry to industry, SMEs tend to be more labour-intensive than large firms. For example, in Japan the labour-capital ratio was four times higher in SMEs than larger firms in 1989. Since SMEs continue to remain more labour-intensive than large firms, and since they are also generally growing more rapidly, especially in terms of new firm formation, the net result is that they are crucial job-generators in most economies. This continues to be the case in the 1990s. For instance, in the United States in 1992, as much as four fifths of new employment was generated by smaller firms with 100 or fewer employees. Small and medium-sized enterprises are not only established more easily than large firms, but are also likely to be spin-offs from large firms. Furthermore, a considerable proportion of the births of large firms is the result of expansion by SMEs or mergers and acquisitions between SMEs. All this suggests that the role of SMEs in employment is considerable.

Innovatory capacity. The role of SMEs as innovators is not as clearly demonstrated as their role in job creation. This is largely because of methodological difficulties: for example, one traditional measure of the rate of innovation — research-and-development (R&D) expenditure per employee compared to new patents received per

employee — does not adequately capture a unique feature of SMEs, namely that owners and managers are often themselves innovators. For example, in Japan 52 per cent of SMEs' innovations reported in 1986 were created by employers, whereas in large firms 72 per cent of innovations were created by research technicians. Nevertheless, patchy evidence from Germany, the United Kingdom and the United States indicates that SMEs at least hold their own in terms of innovation compared to large firms. Perhaps most significantly, a recent study indicates that, while the total number of innovations is positively related to R&D expenditures, skilled labour and the degree to which large firms comprise the industry, in innovative industries innovative activity tends to emanate more from SMEs than large firms. This is probably because in industries where large firms dominate, SMEs need to be innovative to survive. There is much information to suggest that in technologies such as micro-electronics, new materials and biotechnology SMEs tend to be in the vanguard of innovation.

Small and medium-sized enterprises as exporters. The contribution of SMEs to a national economy from exporting is generally small; for example, in Japan SMEs accounted for only 13 per cent of merchandise exports in 1990. Although in some countries such as France and Italy, SMEs export almost as much as large firms in absolute values, most SMEs do not export; in the United States in 1983 only 37 per cent of SMEs were exporters. Even fewer are involved in foreign direct investment (FDI) or technology transfer. It is worth highlighting that there are many internal and external barriers to international involvement by SMEs.

Other contributions. These are many and include: first, the fact that SMEs may increase consumer choice by producing a greater diversity of specialized goods and services (especially as niche producers); secondly, their flatter management structures makes them more agile — a plus in a complex, rapidly evolving world economy; and, finally, though they are usually less productive than large firms, their higher labour productivity in certain industries (services in the United States, manufacturing in New Zealand) can provide valuable lessons for other firms in many countries. Of course there are big differences in labour productivity between different SMEs in most countries, indicating that there are many "types" of SMEs.

II. The Transnationalization of Small and Medium-sized Enterprises

Size is not an insuperable barrier to transnationalization, although SMEs face constraints in certain areas including management and capital availability. The existing theoretical and empirical literature, as well as a United Nations Survey, is valuable in understanding why SMEs transnationalize, the constraints they face, and how these are overcome.

The theoretical and empirical literature. The literature, which is largely, but not exclusively, derived from the experience of large firms, gives a great deal of insight into the nature of the transnationalization process of firms, although it needs to be modified in order to cope with the special circumstances of SMEs. A number of key points emerge from the literature:

- The relationship between firm and market is important. This is reflected in the balance between firm size and market size. Market niches are of great potential in understanding the industrial distribution and pattern of foreign activities by SMEs.
- There are significant constraints on the international activities of SMEs. Both internal and external constraints influence growth patterns. Internal constraints are shortages of capital and management and informational constraints. The acquisition of greater resources is impeded by the necessity to retain control and institutional difficulties of borrowing and financing. External constraints arise from the market, from the dangers of takeover and from institutional restraints, both governmental and non-governmental.
- The role of uncertainty looms large in the decision-making of SMEs. Partly this can be offset by information activity, but this is costly and interacts with management shortages. Short cuts and inadequate evaluation of alternatives often result.
- Alternative forms of investment are also used by SMEs. Licensing, turnkey operations and production sharing are considered as

alternatives to FDI. Technology transfer by SMEs via licensing is a significant phenomenon.

- The vulnerability of SMEs to technological, political, institutional and market changes must be stressed. Against this, the flexibility of SMEs is often an important competitive advantage.
- The motives for FDI follow several patterns, including: SMEs may be pulled into foreign markets by larger firms, by tariff imposition or other powerful influences; they may be pushed abroad by domestic conditions, for example a declining home market; and SMEs are susceptible to what can be regarded as spurious investment based on an inadequate evaluation of alternatives, perhaps because of an overzealous following up on an approach by an external body or because of misinformation.
- It should be noted that large transnational corporations (TNCs) often have highly sector-specific expansion routes. This leaves market niches or interstices for SMEs to exploit. It is in these small-firm industries, not necessarily characterized by economies of scale, where successful SMEs can be found.
- The structure of industries is relevant. For example, the role of SMEs may change over the life-cycle of a given industry.
- As with large TNCs, the international location strategy of SMEs will depend on a variety of factors, including returns to scale, dependence on centralized R&D, price distortions in oligopolistic industries, government intervention, communication costs etc.

The transnationalization process of firms in the United Nations Survey. Small and medium-sized enterprises have been relatively reluctant to engage in international business because they are unfamiliar with foreign markets. However, recent technological developments in communications, transportation and financial services have enabled SMEs to exploit opportunities in international markets better. The United Nations Survey also reveals that small and medium-sized TNCs are more likely to have had previous relationships, such as trading and contractual agreements, with their affiliates than large TNCs prior to initial investment by parent companies. This might be expected, but contrary to the literature, the firms in the United Nations Survey did

not undergo a step-by-step transnationalization process: fully 70 per cent of all foreign affiliates established by SMEs had no previous relationship with the parent firm.

A full 86 per cent of foreign affiliates by small and medium-sized TNCs in the Survey are greenfield in nature. One reason for this appears to be the fact that some of the SMEs are technologically advanced and therefore are keen to establish up-to-date facilities. Not only do these small and medium-sized TNCs possess technological advantages from the very beginning, but they also try and acquire foreign technologies and collaborate with foreign firms in technological development. It is significant that not all technologically advanced small and medium-sized TNCs are from high-technology industries: technological advantages are therefore a key element in explaining the transnationalization process of SMEs, although not the sole factors.

Transnationalization factors. The most important overall determinant of FDI by SMEs, especially in Europe and East Asia, is the expectation of growth in the local market, followed by the need to strengthen competitive capacity and the intention to export from host countries to third markets. When motivations specific to developing countries are examined, the expectations of growth in local markets, low-cost labour and exports to third countries emerge as the most important determinants. It is important to note that there is no significant difference between large and small and medium-sized TNCs in their reasons for investing in developing countries, though their capacities to do so may differ, as might the form of the FDI and its consequences. Other important factors include:

- The challenge of imports from developing countries, especially under conditions of rising wage costs or currency appreciation. The stress on low-cost labour, the need to improve competitiveness and the intention to export to other markets would imply that this is an important consideration.
- The intention to carry out technological efforts to improve or update their know-how emerges as an important factor, especially for firms investing in North America. It is important to note that small and medium-sized TNCs spend a relatively larger amount of resources in updating their technologies compared to other firms in the same industry. This is a crucial finding for countries

hoping to benefit from inward FDI by small and medium-sized TNCs.

- The need to protect foreign markets and access to clients is a strong motivating factor, though there are at least three sub-motivations: the desire to continue servicing host-country clients, following, perhaps, import-substitution policies by the host country; the desire to maintain business by following home-country clients to host-countries; and the need to use developing countries as cheap locations to service their clients in the home or third-country markets.
- A number of pull factors emerge as being significant. Most importantly, in a third of the cases, local-partner firms took the initiative in the establishment of affiliates, either independently or jointly with SMEs' parent firms. This initiative by local firms was much higher for SMEs than in the case of large TNCs (the equivalent ratio in their case was 15 per cent); and this motivation was particularly important when technology acquisition was a major motivation: presumably this is because local firms have better knowledge and access to appropriate technology than foreign SMEs. Government incentives or favourable tax schemes seem to be relatively unimportant as pull factors.

III. Foreign Direct Investment by Small and Medium-sized Enterprises

It is worth making the point that there are few consistent or systematic FDI data available by firm size. This analysis is therefore based on a patchwork of sources, including national statistical offices, the United Nations Survey and other surveys.

Global trends, patterns and characteristics of foreign direct investment. There are two major features of the transnationalization of SMEs: first, their FDI is small in value, but large in terms of the number of parents or affiliates; secondly, their FDI is concentrated in developed countries. In the United States in 1988, for example, only 3 per cent of foreign assets were controlled by small and medium-sized TNCs, but

these companies accounted for 28 per cent of all parent companies and 6 per cent of foreign affiliates. Similarly, in the United Kingdom in 1981, SMEs constituted 66 per cent of enterprises making foreign investments, but only 1 per cent of the book value of FDI.

It was found that 80 per cent of a sample of 735 SMEs' foreign affiliates were located in developed countries in the late 1980s. Proximity was a major factor, with Canadian and United States SMEs investing in North America and firms from Western Europe investing in other European countries. Only Japan and Australia differed markedly from this pattern in the sense that there are more investments in developing countries. It is of crucial importance that a comparison with large TNCs shows that SMEs have a *relative* preference for developed countries; and that they also prefer South and East Asia, the most "developed" of the developing regions, as a location.

In terms of sectoral distribution, 70 per cent of small and medium-sized TNCs are in manufacturing, with the rest in services, including trade. There tends to be a greater number of affiliates per parent firm among small and medium-sized service TNCs because such companies need a greater spread of location world-wide to conduct their international business, although the significance of special factors (such as the use of countries such as Liberia as "flags of convenience") should not be discounted. Compared to large TNCs, small and medium-sized TNCs seem to have a comparative advantage in textiles, clothing and mechanical equipment, a point to be considered for policies adopted by developing-country Governments.

General characteristics of firms in the United Nations Survey. The overall characteristics of FDI in the United Nations Survey, covering 242 affiliates owned by 97 small and medium-sized TNCs, as well as a selection of large TNCs, are broadly similar to those just described. Small and medium-sized TNCs in the survey have an average of 2.5 foreign affiliates; European SMEs own more foreign affiliates than their Japanese or United States counterparts; and 55 per cent of foreign affiliates are established in developed countries. The greater share of FDI by SMEs taken by developing countries in the United Nations Survey is partly explained by the selection process: the ultimate focus was on developing countries.

According to the Survey, about two thirds of investments were made after 1980, implying that substantial FDI by SMEs is a relatively recent phenomenon, although some of the current flock of SMEs — especially those from the United States — started overseas operations much earlier, some as early as the 1920s. Generally, high-technology SMEs started transnationalizing earlier than those in low- and medium-technology SMEs.

Japanese small and medium-sized transnational corporations. The scale of FDI by Japanese SMEs is more or less related to their important role in the home economy. Small and medium-sized TNCs have become a significant component of Japanese FDI, to the extent that their share in the total number of overseas Japanese equity investments was 60 per cent in 1988. The rise in their FDI share was due in part to the loss of export competitiveness caused by competition from companies based in developing countries, and, in part, to the fact that SMEs have been following their clients into foreign production. Behind these factors, the dramatic appreciation of the yen has been at work. The total value of FDI by Japanese SMEs was as high as $40 billion or more by 1990.

In comparison with the geographical distribution of FDI by large firms, FDI by Japanese SMEs is slightly more concentrated in developed countries, especially in North America. However, for all firms, South and East Asia is a very important host region, which is the second largest recipient of FDI. Although FDI by each size-of-firm category is largely concentrated in North America and South East Asia, this concentration is higher for SMEs; FDI by large firms is more evenly spread between regions. As substantial FDI by SMEs is a relatively recent phenomenon, their concentration in particular regions is not unexpected. More significant is the relative importance of South and East Asia for Japanese manufacturing FDI, in contrast with North America where services FDI is more pronounced. The establishment of production sites in South and East Asia and distribution facilities in North America are prominent features of FDI by Japanese SMEs.

There appears to be a certain division of labour between SMEs and large TNCs in terms of their investment by industry. In manufacturing, there is relatively more SME investment in light- or low-technology industries such as textiles, food and pulp and paper, whereas large TNCs have a slight lead in industries such as chemicals and non-fer-

rous metals and machinery (23 per cent of FDI by all large TNCs, compared to 21 per cent for small and medium-sized TNCs). In services, the distinction is clearer: large Japanese TNCs dominate banking, insurance and other financial services, whereas small and medium-sized TNCs are more inclined towards real estate, distribution and restaurants.

United States small and medium-sized transnational corporations. United States small and medium-sized TNCs controlled about 6 per cent of the number and 3 per cent of the assets of all foreign affiliates by United States TNCs in 1988, representing a FDI stock of around $15 billion. Although these levels reflect an increasing importance of FDI by United States SMEs as compared to the levels of 1982, SMEs do not play a role in United States FDI comparable to that played by such companies in Japan. This is partly the result of a very large market that does not reach a saturation point easily. United States small and medium-sized TNCs are typical of those from most developed countries; but, interestingly, in recent years they have been more inclined to invest in developing countries. In 1988 developing countries accounted for 28 per cent of the share of foreign affiliates established by United States SMEs, although the developing-country share of United States SMEs' foreign assets dropped slightly.

In terms of geographical dispersion, South and East Asia is now the second largest recipient region of FDI by United States small and medium-sized TNCs, accounting for 18 per cent of all foreign assets in 1988, in the process pushing the formerly predominant Latin America into third place. This trend mirrors that of Japan, with the East Asian newly industrializing economies and the Philippines benefiting most. Canada, the Middle East and some Latin American countries remain major recipients; and Mexico, already the second largest base for United States SMEs after Hong Kong, may well increase in prominence with the development of the North American Free Trade Area. The spread of United States small and medium-sized TNCs to South and East Asia and other regions is highly diversified by industry compared to large TNCs. Also noteworthy is that FDI in transportation is relatively unimportant compared to Japanese small and medium-sized TNCs — reflecting a different industrial structure in the two countries.

European small and medium-sized transnational corporations. As with the United States, large European TNCs account for the bulk of FDI from the region. In Sweden in 1987, for instance, as many as three quarters of 715 TNCs were SMEs, but these together only accounted for 2 per cent of total FDI. The patchiness of the data and the diversity of industrial and economic systems makes it difficult to generalize about European small and medium-sized TNCs, although some specificities may exist, for instance, an increasing tendency by German SMEs for non-equity international investments, and the relatively high foreign share by Italian medium-sized TNCs.

Western Europe is not only the largest home region, but also the largest host region of small and medium-sized TNCs. As a host, Western Europe has increasingly attracted FDI from both inside and outside the region, due in part to the prospects for a unified market in the European Community. The evolution of the single European market will continue to affect the pattern of SMEs' transnational activity, perhaps by diverting it from developing countries. On the other hand, nearby developing and transitional countries may benefit from investment by SMEs oriented towards servicing the Western European Market.

IV. Characteristics of Small and Medium-sized Transnational Corporations

Information on the main features of small and medium-sized TNCs is essential in designing any policy framework to facilitate the transnationalization of SMEs, especially in developing countries.

General characteristics. Typically, TNCs possess some degree of market power in their home countries which normally accrues from ownership or firm-specific advantages related to their products. As TNCs grow and diversify at home or abroad, they utilize these intangible assets, derived from the possession of advanced technology, brand names, marketing skills or an efficient organizational structure. The United Nations Survey found this to be the case for small and medium-sized TNCs as well. Defining the market in terms of their primary product, these TNCs had a market share of 30 per cent at home

and 15 per cent abroad. In developing countries, SMEs had a larger share (38 per cent) of their primary product market than large TNCs (32 per cent). They therefore possess significant market power and often operate in oligopolistic industries. However, about two thirds of small and medium-sized TNCs believe that they operate in competitive industries and, significantly, this share is about four fifths for SMEs in high-technology industries. This tallies well with findings discussed earlier. It seems that although high technology creates advantages, these cannot be retained for long in a competitive environment; this in itself may be a strong motivator favouring transnationalization.

Although most small and medium-sized TNCs compete with large firms in some industries such as rubber, furniture and construction, there is little direct competition. This is especially the case for Japanese and European SMEs: in the former instance, this may reflect the fact that 56 per cent of Japanese SMEs were subcontractors in 1987. Though, generally, the relationship with large firms is not a decisive factor, it seems that in more technologically advanced manufacturing industries there is a stronger relationship between large and small firms. This is an important finding for developing countries seeking to attract transnational SMEs in high-technology industries: the policy framework regarding smaller and larger TNCs must carefully balance several considerations. Furthermore, the prospects for a strong relationship between foreign SMEs and large developing-country firms would seem good.

When it comes to mode of foreign entry, SMEs must balance limited financial and managerial resources (hence joint ventures etc.) with the need to protect proprietary technologies and advantages (hence wholly-owned ventures). The United Nations Survey casts light on some of the consequences of this dilemma, particularly when SMEs are compared to larger firms. For example, affiliates of small and medium-sized TNCs are more likely to enter joint ventures than their larger counterparts, but this is more likely to involve the establishment of an entirely new venture. Of course host country factors also affect entry methods.

The United Nations Survey shows that where SMEs utilize non-equity foreign arrangements, these are normally limited to licensing and other agreements with their own affiliates. It is worth mentioning

that the United Nations Survey was not designed to include SMEs which have chosen only a non-equity route to foreign involvement, perhaps because of limited resources and other constraints.

Compared to SMEs in general, small and medium-sized TNCs are large (in terms of sales, employment and capital), less labour intensive, more productive and more export-oriented. The larger size of small and medium-sized TNCs suggests that there may be a certain minimum size for SMEs to become transnational, perhaps depending on industry. They are also relatively competitive in international markets; their exports-to-sales ratio of 22 per cent exceeds that of SMEs in general (15 per cent) and is on par with large firms (24 per cent). Small and medium-sized TNCs are more profitable than both small and medium-sized firms in general and large firms. Profitability is more quickly achieved in Asia (2.7 years from establishment) than Latin America (4.6 years).

Competitive advantages of small and medium-sized transnational corporations. The most important source from which small and medium-sized TNCs obtain their competitive advantages is flexibility of management. Only 4 per cent of these companies regard this source of advantage as being smaller than for other countries. Associated with this source of their competitive edge are organizational and marketing capabilities and other marketing-related advantages, such as experience in home markets and access to markets. They have moderate advantages in proprietary technology, niche production and international reputation and prestige. In contradistinction, both government assistance and economies of scale are weak sources of advantage.

Analyzing the sources of advantage by home country, it appears that European small and medium-sized TNCs are more likely to derive advantages from economies of scale, whereas flexibility of management and organizational and marketing capabilities are more frequently significant for United States and Japanese companies. Both United States and European companies enjoy a marked status as reputable niche producers, but this is less commonly the case for Japanese companies. The latter produce relatively more mature products and rely more often on their complementary links with large Japanese firms.

The competitive advantages of small and medium-sized TNCs can be expected to vary by industry as the level of advantages depends on accumulated and specialized managerial, technological and organizational skills. However, the differences are generally smaller by sector or industry than by country. Interestingly, it is small and medium-sized TNCs in medium-technology industries that have the fewest cost advantages compared with those in other industries. This may explain their higher propensity to internationalize. Because these companies cannot easily enjoy the benefits of either economies of scale or advanced technology at home, they may expand markets and increase economies of scale at a regional or global level. Potentially, because of their willingness to internationalize, certain medium-technology SMEs may be valuable in bridging the technology gap between developed and developing economies.

Research and development is a major source of competitive advantage and, consequently, FDI. The United Nations Survey reveals that as many as 70 per cent of small and medium-sized TNCs are involved in R&D activity, often in specialized research departments. However, the ratio of R&D expenditures to total sales for Japanese small and medium-sized TNCs is, on average, only one half of that for small and medium-sized TNCs from the United States and Europe. Moreover, while nearly one third of United States and European small and medium-sized TNCs have R&D facilities abroad, that level for Japanese firms is only 7 per cent.

Strategies of small and medium-sized transnational corporations. According to the United Nations Survey, there are no marked differences in strategy between small and medium-sized TNCs and large TNCs. For example, in 90 per cent of the cases surveyed in both sizes of firms the primary diversification strategy has been a horizontal one whereby the same (or modified) product is produced in the affiliate as in the parent company. However, an appreciable share of small and medium-sized TNCs is involved in what may be called "deep niche" strategies at home and abroad, which effectively gives them a relatively high market power in the products or market segments in which they are specialized. Both these and other small and medium-sized TNCs nevertheless tend to possess elements of competitive advantage which, perhaps unlike in the case of large TNCs, emanate from a wide variety of sources. These sources include, not unexpectedly, proprietary

technology and factors such as flexible management, organizational and marketing ability, quality control, after-sales service, reputation, prestige and good customer-supplier relations. These sources of advantage should not be overlooked by developing countries; small and medium-sized TNCs can be a viable conduit for transferring such expertise.

V. Contributions to Host Developing Countries by Small and Medium-sized Transnational Corporations

Small and medium-sized enterprises are still by far not as significant in FDI as they are players in their home economies. It is nevertheless worth examining the contribution that small and medium-sized TNCs can make to host developing countries, especially in contrast to large TNCs and indigenous firms. It is worth noting, at this point, that a large number of industries in developed countries are dominated by SMEs, implying *a priori* that an important reservoir of productive resources exists that can benefit developing countries in advancing projects requiring small absolute amounts of resources.

Technology transfer. The United Nations Survey shows that 92 per cent of affiliates of small and medium-sized TNCs and 98 per cent of large TNCs received technology from their parent companies. In general, large TNCs transfer a fuller package of the various elements involved in such a transfer, including process technology, product technology, quality-control techniques and management systems. Small and medium-sized enterprises are more circumspect in their transfer, but there are clear tendencies as to which technology elements are transferred and to where. For instance, process, product and plant-design technologies are transferred in almost the same degree to SMEs' affiliates in South and East Asia and Latin America; but affiliates in the latter region are much less likely to receive quality control, management or marketing know-how than those in the former region. There are a number of possible reasons for differences in transfer by developing regions: there are more joint ventures in Latin America and so local partners supply much of the management, quality control

etc.; there is a preponderance of Japanese small and medium-sized TNCs in South and East Asia and these may have a different attitude from firms from other countries; or the affiliates in South and East Asia are much more recent and may be more inclined towards importing modern techniques.

The channel of technology transfer. The United Nations Survey finds that small and medium-sized TNCs are less inclined to formalize their technological knowledge, partly because of lack of personnel and other resources, but also because their know-how is often acquired through personal experience which is difficult to formalize. Small and medium sized TNCs choose the channel of written instructions less commonly than large TNCs (e.g. blueprints were sent to 49 per cent of affiliates by the former and 61 per cent of affiliates by the latter); and they are less able to send technical experts to affiliates. Technical training other than on-the-job training was conducted by only 40 per cent of small and medium-sized TNCs, compared to a 70 per cent level for large TNCs. However, for both small and medium-sized and large TNCs, on-the-job training is most often used as a primary means of technology transfer.

Small and medium-sized enterprises often control production know-how based on small-scale techniques which might be suitable for the smaller markets of many host developing countries. The United Nations Survey shows that affiliates owned by small and medium-sized TNCs involve a much smaller scale of operations than those owned by large TNCs — about one sixth to one seventh of the size of affiliates of large TNCs in terms of employment and capital used. Furthermore, according to the survey, small and medium-sized TNCs produce more value added per unit of input than large TNCs or indigenous firms and have a higher average productivity than both the latter sets of firms, particularly in terms of productivity of capital employed.

The United Nations Survey shows that the labour-capital ratio in the affiliates of small and medium-sized TNCs is about one and a half times higher than for large TNCs in manufacturing; the same ratio is ten times higher in services. These ratios are also higher than for indigenous firms in the sample. Affiliates of small and medium-sized TNCs are therefore relatively efficient generators of employment. Most importantly, contrary to expectations, labour-intensive industries include

relatively high-technology ones such as the manufacture of radios, televisions, communication equipment and scientific instruments. Interestingly, the affiliates of both TNCs and indigenous firms in "high-technology" industries are the most labour intensive in developing countries. This is especially the case for small and medium-sized TNCs. It is the technology utilized that determines the intensity of labour input.

Some new or high-technology SMEs have been inclined to begin international operations from the earliest years of their existence. This means that some developing countries are able to reap the benefits from frontier technologies in a relatively short time-frame. For example, SMEs producing robot-controlled painting machines, automatic testing equipment and optical elements made their first FDI within a few years of their existence. The United Nations Survey also shows, however, that only 41 per cent of small and medium-sized TNCs transferred their best technology to developing countries, compared to a level of 63 per cent for large TNCs.

The United Nations Survey found that the most common reason for the modification of transferred technologies in developing countries is the nature of local demand, followed by the nature of local raw materials and labour. Overall, some 77 per cent of affiliates of small and medium-sized TNCs and 85 per cent of their larger counterparts had made adaptive efforts. The adaptive efforts by SMEs were often much lower than those of large TNCs. This can be explained by a number of factors: affiliates do not achieve the technological mastery to make adaptations; because the tacit component in SME technologies is higher, a formal adaptive effort may not be needed; small and medium-sized TNCs may find the level of modification a more difficult proposition because of the sheer scale of the effort; resources employed on adaptation may be better used elsewhere; and lower adaptive efforts may simply be due to the transfer of more suitable technologies in the first place. It is also worth mentioning that the survey indicates that it takes fewer years for local affiliates of small and medium-sized TNCs to achieve technological mastery, as compared with the time taken by affiliates of large TNCs (3.7 years as against 4.2 years).

It seems that affiliates of small and medium-sized TNCs in developing countries are more likely to be involved in exports than those of large TNCs. More than 40 per cent of output is exported in the case of

the former and about 25 per cent in the case of the latter. Moreover, on average more foreign exchange is generated as a proportion of sales, especially in Latin America. Overall SMEs are more likely to see developing economies as export bases for their products than large firms.

Linkages with the local economy. One of the most frequent criticisms put forward in relation to FDI carried out by TNCs in developing countries concerns the limited linkages of their affiliates with the host economy. The picture obtained from the United Nations Survey is mixed. As expected, indigenous firms use more local inputs than affiliates of TNCs, and the share of firms utilizing subcontracting is higher for indigenous firms than for affiliates of TNCs. However, in terms of the proportion of sub-contracted inputs to total output, affiliates of small and medium-sized TNCs purchase more inputs from subcontractors than even indigenous firms. These subcontracting links could have important long-term implications, especially in terms of quality-control techniques and similar skills. Similarly with regard to technology connections, around 20 per cent of all TNCs and indigenous firms in the survey have transferred technology to other local firms. Regardless of nationality, any competitive firm is sensitive to the dissemination of proprietary technology.

Human resource development. According to the United Nations Survey, formal technical training (excluding on-the-job training) is undertaken in about one half of developing-country affiliates of small and medium-sized TNCs, compared to about three fourths of those of large TNCs. Furthermore, affiliates of large TNCs are also more involved in all channels of technical training. The most popular training programme for affiliates of TNCs is carried out in parent firms to which local employees are dispatched: this happens in the case of 80 per cent and 93 per cent of large and small and medium-sized TNCs, respectively. Moreover, for small and medium-sized TNCs, this method is by far the preferred method, compared to others. Where appropriate, policies should be enacted which help small and medium-sized TNCs to carry out a wider range of training of human resources. It is also worth noting that the national origin of the SME may be relevant: Japanese firms tend to provide most training at the parent firms, whereas United States small and medium-sized TNCs use on-site training to a much greater degree.

Market structures and other effects. Foreign direct investment may upgrade developing-country capabilities through R&D by affiliates, but the United Nations Survey shows that fewer small and medium-sized TNCs conduct such R&D than large ones (45 per cent, as opposed to 55 per cent). There are differences by nationality: for instance, Japanese TNCs are less inclined than TNCs from other developed countries towards R&D in developing countries. The impact of R&D by affiliates of TNCs on overall development is difficult to measure, but 85 per cent of affiliates of small and medium-sized TNCs and 75 per cent of affiliates of large TNCs that undertake R&D only started these efforts after investment by their parent companies. The diffusion of technology by TNCs into local economies is slightly higher than by indigenous firms, and domestic capabilities can be improved because of this.

VI. Problems Facing Small and Medium-sized Enterprises in their Transnationalization

Problems related to size. Undertaking international production involves greater risks than exporting, since for a small firm a single failure could lead to the demise of the firm. Intriguingly, however, only a quarter of SMEs consider their size a constraint and about 40 per cent believe that no adverse effects derive from size. Indeed, nearly a half of SMEs feel that small size works to their advantage, perhaps because comparatively simple marketing and distribution networks, allied with quick decision-making processes, may actually facilitate their transnationalization. However, though these views are promising in terms of factors fostering the transnationalization of SMEs, caution should be exercised in drawing conclusions from the finding. For example, the SMEs in the survey are already transnational and therefore do not represent the views of the totality of such firms; furthermore, these small and medium-sized TNCs surveyed are actually quite large on average. On average they employed 286 persons in their home country, whereas, in the European Community, for instance, 92 per cent of SMEs had less than 10 employees.

Problems related to the nature of small and medium-sized enterprises. Public institutes dealing with SMEs consider insufficient financial strength the single most important problem facing SMEs when investing in both developing and developed countries. For instance, because they are less well-known, they have difficulties raising capital; and because they have less information than large TNCs on host-country economic environments, they cannot easily contain their capital outlays. Many SMEs enter international joint ventures in order to reduce such financial burdens; others participate in non-equity projects, such as licensing, that do not require much by way of direct financial contribution.

Although enhanced international communications have reduced the amount of managerial resources required to reach a decision on FDI or other international activities, the limited managerial and human resources of SMEs still constitute a restriction when it comes to operating abroad. Insufficient managerial capacity is deemed the second largest problem facing SMEs according to public institutions dealing with SMEs. This problem is closely allied with a lack of experience in the field of international business. Small and medium-sized enterprises may not master routine procedures and techniques when carrying out business abroad, perhaps making foreign production decisions based on limited knowledge or not taking advantage of methods for minimizing international taxation. Small and medium-sized enterprises are usually not prepared for long and complex negotiations with host-country Governments, and because of this they may abandon otherwise commercially viable propositions. Small and medium-sized enterprises sometimes compensate for this lack of experience by establishing or enhancing a relationship with clients, partners or other local firms.

The capability of a firm to transfer efficiently its knowledge to its affiliates in foreign countries is different from that generally needed to produce and market its product. Small and medium-sized enterprises may have limited transfer capabilities compared to larger firms, first because they have less resources to develop these capabilities; and, secondly, because their technological skills are incorporated relatively more in the knowledge and experience of their personnel, they are less able to formalize these skills into manuals or blueprints. According to public institutions concerned with SMEs, however, insuffi-

cient technology transfer capabilities and low formalization of technology are not severe difficulties compared to other problems. Internationalization is a learning process and as such puts small and medium-sized TNCs on a different footing with respect to their transfer capabilities. The capability of SMEs to transfer technology can be nurtured with successive international involvements.

Problems related to partners of small and medium-sized enterprises in host countries. Problems similar to those facing SMEs are also faced by their partners. According to developed-country public institutions dealing with SMEs, problems such as insufficient financial resources and managerial capacities are often more severe for indigenous firms in host developing countries than for small and medium-sized TNCs themselves. The success or failure of FDI by SMEs in developing countries is more influenced by the difficulties affecting their partners than is the case with respect to FDI by large firms. Partly, this is because SMEs are more likely to enter joint ventures, and partly because they have fewer resources to assist their partners. In a similar vein, problems related to local labour, including recruiting skilled labour, affect small and medium-sized TNCs much more than their larger counterparts.

Problems related to host countries. Although investment policies have increasingly become more liberalized everywhere, a number of FDI regulations are still of concern, especially in some host countries. Ownership limitations are the constraint most often alluded to by TNCs, although most do not regard this as a major difficulty. However, export-oriented investors, especially SMEs, which depend on high product quality are more likely to be concerned about the consequences of control exercised by local partners. More important for small and medium-sized TNCs are minimum investment requirements, given their lack of financial resources; performance requirements such as local-content ratios can also create more difficulties for small and medium-sized TNCs as opposed to large ones. One particular regulation, limits to overseas remittances, is regarded as the second most severe constraint by TNCs; whilst other requirements such as those related to technology transfer, licensing etc. are usually not regarded as being so problematic.

Limited infrastructure is a severe constraint for all TNCs in developing countries. Most problematic (and more so for large TNCs because

of the scale of their operations) is undeveloped physical infrastructure; there appear to be fewer concerns about legal, distribution and similar infrastructure. Difficulties in procuring inputs, machinery and equipment in host countries is a major constraint for small and medium-sized TNCs; unlike large TNCs they are not generally able to induce the local production of needed goods either directly or because of the scale of their demand.

Macroeconomic, political and cultural constraints and difficulties affect all TNCs, but small and medium-sized TNCs are usually affected more because of their limited resources. For example, SMEs often cannot afford the expenditure on information needed to reduce cultural and linguistic difficulties; moreover their informational requirements are relatively large because of their limited international experience.

VII. Initiatives and Programmes to Promote the Transnationalization of Small and Medium-sized Enterprises

There are a number of initiatives and programmes aimed at encouraging international activity in developing countries by SMEs, but currently the primary effort, direct and indirect, is by governmental institutions in developed countries.

Factors such as macro-economic policies, foreign-trade regulations and industrial policies all impact indirectly on SMEs, including any decisions they make regarding transnationalization. In fact, push factors originating in their home-country environments may be more significant than services offered by governmental organizations in determining transnationalization. Consequently, policy makers should consider appropriate strategies at the macro and industrial levels to encourage SMEs to move to developing countries. More specifically, developed-country measures and instruments (such as double-taxation agreements, investment-guarantee schemes and bilateral-investment treaties) aimed at promoting FDI to developing countries by all firms also, of course, encourage the transnationalization of SMEs.

Major institutions in developed countries. The major public organizations that support transnationalization by SMEs include development finance corporations, other financial organizations with various objectives (including investment guarantees) and technical and similar organizations. Not all of these entities deal exclusively with SMEs, while others are restricted by, for example, the developing countries targeted for their operations. It is also important to underscore the fact that, in addition to the areas and fields of specialization, these institutes vary according to the type of ventures they aim to promote. Development finance corporations, for instance, help exploit home-country firms' advantages through joint ventures with developing-country partners, sometimes with the complementary participation of a host-country development finance institution.

These public institutions provide a variety of services:

- Basic information services, such as awareness services and data banks.
- Pre-project assistance, including the provision of market information and acting as contact brokers.
- Project assistance and management, including legal advice, feasibility studies and equity participation.
- Financial assistance, such as loans, trade credits and guarantees for commercial banks.
- Special financing initiatives, such as a contribution towards initial costs, and help in technology adaptation or personnel training.
- Investment-guarantee services.

Few of these services are exclusive to SMEs or developing countries; the extent of coverage varies considerably; there are many project requirements and eligibility criteria (sometimes confusing); and the objectives vary from a stress on development to assuring a contribution to the home country.

The true effectiveness of public institutions in supporting the transnationalization of SMEs to developing countries is difficult to assess. It is likely to be low, however. For instance, the two Japanese SMEs' banks (The Shoko Chukin Bank and Small Business Finance

Corporation) are estimated to have financed only 2 per cent of all FDI by Japanese SMEs in 1991; and of SMEs in the United Nations Survey that had invested abroad, only one tenth employed the services of home-government institutions. On the other hand, there are often striking examples of success.

Initiatives and programmes in developing countries. Apart from general liberalization procedures, some developing countries have introduced changes in the administrative procedures for the approval of FDI that are particularly beneficial to SMEs. The elimination of the need to obtain approval when investments are below a certain level in Mexico is a case in point. In Indonesia, regulations on minimum investment by foreign firms were abolished in 1988 and Malaysia and Thailand similarly have no minimum levels for FDI. Other countries have designed policies to encourage domestic SMEs which can, in effect, also help foreign SMEs. Brazil, the Republic of Cameroon, the Republic of Korea, Sri Lanka and Venezuela, for example, give various tax and fiscal incentives to SMEs; Chile and Singapore permit favourable access to credit for smaller undertakings. The trend is encouraging.

More specific programmes also indicate that success is possible. For example, a programme between the Republic of Korea and France was implemented in 1985 through the Small and Medium Industry Promotion Organization (SMIPO) and APRODI (Association pour la Promotion et le Développement Industriel) of France. This initiative operates through demand identification. Korean SMEs place their technology requirements through SMIPO which informs APRODI. The latter looks for an appropriate French partner and both institutes advise firms on the specific features of their potential partners. Both entities assist the partners in the project-negotiations stage.

Initiatives by international organizations. All existing programmes and schemes initiated, sponsored or coordinated by international organizations regarding SMEs are related to advancing SMEs based in developing countries. This enhances the capabilities of host-country enterprises and fosters more viable cooperation with foreign TNCs, but international organizations do need to take a much broader view if FDI by SMEs is deemed to be beneficial to developing countries.

Though the trends are encouraging, much needs to be done to enhance initiatives and programmes to foster investment in developing countries by small and medium-sized TNCs. Public institutions in developed countries, in particular, seem to have a limited impact and the United Nations Survey shows that of those SMEs which do seek external assistance, 66 per cent go to private institutions which, of course, also have a role to play. The limited impact is probably due to three factors: first, many SMEs are unaware of the existence of possible assistance from public entities; secondly, SMEs are often reluctant to get involved with official organizations; and thirdly, though public institutions often aim at fostering joint ventures, many SMEs prefer wholly (or majority) owned investments. All these points need to be addressed in any proposed policy framework.

VIII. Policy Options to Promote Foreign Direct Investment by Small and Medium-sized Enterprises in Developing Countries

A number of policy options can be presented that home and host countries, as well as international organizations, could adopt to facilitate the transnationalization of SMEs, particularly to developing countries.

Policies to encourage transnationalization. Although many developed-country Governments have taken steps favouring FDI and thus have contributed to positive international structural adjustments, others still resist this, especially in industries with strong SMEs' representation. Many Governments still consider international production as not relevant for SMEs. This attitude must change and, in particular, it should be recognized that the national interest might well be served with appropriate policies favouring the restructuring of domestic industries and the explicit promotion of the internationalization of SMEs. Further attention should also be given to specific policies and public institutions in this regard, including trade and tax incentives, investment guarantees and the possible earmarking of certain funds for SME projects in developing countries.

Developing countries should recognize that a stable macroeconomic environment is essential to attract SMEs and take appropriate measures, for example, with respect to providing acceptable levels of physical, legal and human infrastructure. Easing entry regulations and simplifying procedures for establishing affiliates would particularly encourage SMEs to invest in developing countries. Steps should also be taken to ensure that domestic enterprises are able to supply complementary inputs and participate with foreign SMEs in effective joint ventures and other forms of cooperation.

International organizations are in a unique position to help the transnationalization of SMEs, and their activities could be varied. For example, they could:

- Act as *centres of expertise* to help in the design and implementation of investment and technology-transfer policies, by both developed and developing countries, especially in their application to SMEs. A valuable side benefit of such centres, if widely used by client countries, would be the creation of a coherent and compatible international framework for the transnationalization of SMEs.
- Act as *centres of information* for small and medium-sized TNCs that require ready information on matters such as the availability of financial assistance, incentive policies, industrial/technological characteristics etc.
- Act as *centres of intermediation* at a number of levels, for example as brokers bringing client companies together. A "one-stop" shop would be useful for SMEs that have limited resources. Such centres could also supply legal and financial assistance. They would also be excellently placed to help SMEs take advantage of existing international opportunities, e.g., debt-equity swaps.
- Act as *catalysts for change and evolution* in terms of the above functions since Governments, firms and others are often unaware of developments. For example, how might technological developments affect a SME's transnationalization capabilities? To what extent and in what ways should small and medium-sized service TNCs be catered for?

Concrete programmes and mechanisms. Increasing awareness of international business cooperation. For most SMEs, undertaking operations in

developing countries is unthinkable. This narrow mind-set is not just due to a lack of familiarity with foreign markets, but is also related to the way SMEs visualize their capabilities. Small and medium-sized enterprises may be aware that their competitive position is based on their production techniques or other assets, but often cannot grasp that these can be profitably exploited in other countries. Similar problems apply to potential partner companies in developing countries. Governments and/or international organizations need to implement programmes that enable both set of firms to become increasingly aware of their true abilities and the opportunities available. Given the scale of the issue it may be advisable to deal initially with a limited and well selected group of SMEs from each industry. These could then act as catalysts for change. Furthermore this catalytic effect could be encouraged by getting these firms involved with others in various fora, including workshops and even joint projects.

Provision of manageable information. Small and medium-sized enterprises and host country firms usually experience difficulties when consulting data banks as the accessed information is not easily interpreted or amenable to decision making. This has to be addressed; and international organizations are in a good position to assist because of accumulated know-how from dealing with data banks in different countries over many years. Much work needs to be done in terms of the division of labour between national, regional and international organizations.

Assistance at the pre-project stage. This is recognized as a must, but the form of the assistance should depend on the exact details. For example: does the initiative originate from a home country SME or a host-country firm? In the former case, advice is necessary on how to design profitable projects; this could be proffered by a team of carefully selected former/retired managers with experience of working in developing countries. In the latter case, it is essential to ensure that the developing-country firm has sufficient capabilities to do business with a small or medium-sized TNC.

Assistance in the selection of partners. This could be done through an enhancement of existing efforts, such as trade fairs and data banks. More useful might be an extension of the type of joint service provided by partner public institutions such as SMIPO (Republic of Korea) and APRODI (France).

Assistance to reduce the costs of technology transfer. This would be of particular benefit to developing countries since it fosters more rapid technological development and could be achieved through, for example, greater support to small and medium-sized TNCs in their modification of know-how; helping SMEs formalize their know-how into transferable instruments such as blueprints (thereby reducing the need to despatch technicians abroad); and helping in the training of affiliates or host-country partners.

Assistance to access financial resources. In some ways, the lack of financial resources is the most crucial difficulty faced by SMEs wishing to invest in developing countries. Access is the key problem and Governments must strengthen, expand and, where necessary, create the mechanisms whereby finance can be channelled to SMEs. For example, public institutions can reduce and simplify their own fund-giving procedures; and host Governments can grant better tax, remittance and other treatment to SMEs.

Basic criteria to orientate policy decisions. The policies created to further FDI by SMEs in developing countries need to be established within guidelines which take into account the difficulties faced by all Governments and international organizations in allocating scarce resources. The priorities in these guidelines might include:

- Strengthening local institutions in developing countries.
- Establishing an appropriate balance between development and business interests.
- Ensuring a rigorous evaluation and flexible implementation of policies towards small and medium-sized TNCs (bearing in mind that other development avenues exist).

In all of this, the special situation of least developed countries should be carefully considered and treated in any policy framework.

PART TWO

THE OSAKA CONFERENCE ON SMALL AND MEDIUM-SIZED TRANSNATIONAL CORPORATIONS

This part of the volume summarizes the results of *International Forum on Small and Medium-sized Enterprises and Development: The Role of Foreign Direct Investment* which took place on 8-9 September 1993 in Osaka, Japan. The conference was concluded with the adoption of the Osaka Declaration, the text of which is reproduced below.

I. SUMMARY REPORT ON THE CONFERENCE

The International Forum on Small and Medium-sized Enterprises and Development: The Role of Foreign Direct Investment was opened on 8 September 1993 by five eminent speakers, representing the UNCTAD Programme on Transnational Corporations (**Carlos Fortin**, Deputy to the Secretary-General of UNCTAD and Director-in-Charge of the Programme on Transnational Corporations), the Osaka Prefectural Government (**Kazuo Nakagawa**, Governor), the Osaka City Government (**Masaya Nishio**, Mayor), the Ministry of Foreign Affairs of Japan (**Yoshifumi Matsuda**, Ambassador Extraordinary and Plenipotentiary resident in Osaka) and the Small and Medium Enterprise Agency of Japan (**Hideki Osada**, Director-General). About 40 speakers and panellists from 15 countries and an audience of more than 700 from all over the world participated in the Forum, which was concluded with the adoption of the Osaka Declaration on 9 September 1993. There was a field trip to visit a small transnational corporation (TNC) in the Osaka area on 10 September 1993, which was the last official event of the conference programme.

The sessions on the first day of the conference were chaired by **Kikutaro Takizawa**, Emeritus Professor, Nagoya University, and **Akira Nishikiori**, Advisor, National Federation of Small Business Associations.

Mitsuru Tanaka, Professor, Kansai University, **Norio Yanagihara**, Professor, Kyoto Sangyo University and **Eiji Ogawa**, Professor and Dean, Nagoya University and Secretary-General of the Japan Association for Small Business Studies, chaired the sessions on the second day.

Speakers at the Forum stressed the valuable contribution of small and medium-sized enterprises (SMEs) to industrial development, based on their special strengths in terms of flexibility, innovativeness and export capabilities. It was noted that the role of Osaka as the home of SMEs and its emergence as a regional hub made the location of the Forum specially apt. All the speakers emphasized the need for SMEs to invest overseas in an era of global production, and stressed the problems that SMEs faced in investing overseas in terms of raising finance, collecting information, having enough trained personnel to send overseas and coping with the extra risk of operating abroad. Reference to those problems, noted right at the start, recurred throughout the conference.

On the first day, the Forum dealt with general issues pertaining to SMEs, economic development, FDI, globalization of the world economy, technology transfer and related matters. Particular attention was drawn to the fact that in the midst of an intense process of structural transformation of the world economy, part of which was taking place in the form of globalization, enterprises were learning to produce abroad in an integrated form, a form of FDI that really did not exist 10 or 15 years ago.

The keynote lecture by **Sanjaya Lall**, fellow of Oxford University, highlighted a number of facets of the significance of SMEs in the global economy and drew attention to the fact that Japan was probably the country with the largest economic contribution of SMEs in the world, including the developing world. It was stressed that, in developing countries, SMEs had a dualistic nature. There was a large proportion of traditional, less productive SMEs that were really in the process of extinction. They represented an industry sector that had to die out, to be replaced by a new group of dynamic, modern, high-technology SMEs; a measure of economic development, in a sense, was the transformation of traditional into modern SMEs. Small and medium-sized enterprises of the modern type were really quite scarce in the developing world, including in the newly industrializing econo-

mies. Their role in developing countries was much smaller than that of SMEs in the developed world.

The growth of SMEs in developing countries faced a large number of constraints, as compared to that of SMEs in developed countries. Small and medium-sized enterprises in developing countries had even more limited access to factor inputs, credit and infrastructure, and, where Government was active, to government contributions than did developed-country SMEs. They faced problems in finding markets, especially in terms of establishing subcontracting relationships with large companies. Such linkages had to be created, but that required a great deal of investment by large companies that were often reluctant to invest in "bringing up" small suppliers. That was one of the major constraints to the development of SMEs. Small and medium-sized enterprises had widespread technological and skill deficiencies and were sometimes not even aware of those deficiencies. They had to be made aware that they could grow, aware of the opportunities available, and aware of their own deficiencies in the modern world.

There was much that small and medium-sized TNCs from developed countries could do to help the development of SMEs in developing countries. They could provide appropriate technologies, finance, skills, training and entrepreneurial inputs. They could help developing-country SMEs to link up with the science and technology infrastructure which, in the long term, was crucial to modernization and competitive success. They could develop export marketing capabilities in SME joint venture partners.

The differences between large and SME investors were discussed by **Masataka Fujita**, Project Director, UNCTAD Programme on Transnational Corporations. He presented the results of a United Nations study of a sample of SME investors which suggested that there were several reasons why small and medium-sized TNCs were better placed than large TNCs to contribute to industrialization and growth in developing countries. Small and medium-sized TNCs were more able to transfer technologies suited to small-scale production. Their affiliates tended to be more significant in several respects as regards their role in developing countries. Although they had difficulties in sparing technical experts to send overseas, small and medium-sized TNCs achieved higher productivity in their affiliates as compared not only with large TNCs but also with local firms in host

countries. They employed more labour, were more export-oriented, and sourced more inputs locally. However, they made less adaptive efforts than did larger TNCs, provided less training and performed less local research and development.

The advantages of small and medium-sized TNCs did not, however, lie in direct competition with those of large TNCs. Their areas of specialization and sources of strength were different. In their areas of activity, small and medium-sized TNCs had a great deal to offer developing countries.

There was further analysis of the nature of technology transfer by SMEs by **Jaime Campos**, Director, Centro do Estudios de Desarrollo y Relaciones Economicas Internacionales (Argentina). His research suggested that the advantages of SME technology lay not so much in scaling down technologies used by large firms, but in specializing in segments where there was a need to customize products. This required flexibility and small scale operations. However, the technologies were not necessarily adapted to conditions in developing countries. In fact, high-technology SMEs were probably less able to operate successfully in developing countries than large TNCs, because they could not cope as well with poor supply and infrastructure. Their ability to transfer technologies was not as highly developed as that of larger firms, and their training was not as formalized. Since the technology itself was not well-codified in blueprints and patents, SMEs found it difficult to transfer technology. These were problems inherent to SMEs. However, it was also noted that there was a subset of SMEs which specialized in mature labour-intensive technologies. The SMEs from Japan and newly industrializing economies that had invested abroad in such industries as textile, garments and footwear had really spearheaded the growth of a number of South and East Asian countries. Development in China in this region had, in particular, been led by SMEs in mature industries.

There were two kinds of firms in developing countries. On the one hand, there were firms that were passive receivers of technology from SMEs in developed countries. On the other hand, there were others that went out and aggressively sought technology. The latter were active firms that sought joint venture partners. However, the aggressive ones were not really small enterprises. They were the larger enterprises. Small and medium-sized enterprises on the receiving side

found it extremely difficult to go out and seek technology. They found it difficult to sell themselves as attractive joint venture partners. Developing countries required assistance to help overcome the barriers faced by potentially aggressive SMEs that needed to go out to seek technology.

Karl P. Sauvant, Chief, Research and Policy Analysis Branch, UNCTAD Programme on Transnational Corporations, presented data on and analyzed recent flows of FDI in the world and to developing countries. He noted that the internationalization of production under the aegis of TNCs was increasing faster than trade and investment; sales by foreign affiliates now amounted to $5.5 trillion, compared to $4 trillion of trade. The pattern of globalization was being driven by the interlinking of production facilities across countries rather than through stand-alone affiliates. It was being increasingly dominated by strategic alliances among large TNCs and by the emergence of international networks. Some panellist argued that it is becoming increasingly difficult for developing countries to break into those networks. It was also becoming more and more difficult for developing countries to access the latest technologies because those were monopolized by large TNCs. Again, the role of SMEs in transferring technology emerged as extremely important.

How did developing countries attract FDI from SMEs? Necessary conditions included stable, credible and predictable policies. Governments had not just to create a conducive investment climate but had to be much more pro-active than before. The ability of developing countries to attract FDI was limited, and there was increasingly a consensus that Governments ought to engage in more targeted FDI promotion. They should target specific industries as well as specific potential investors, and even specific firms and corporate functions so as to seek and obtain the investment they needed. That required much more information and a much more professional approach to FDI promotion than in the past. Countries needed to make themselves attractive as locations for FDI by working on the supply side — by creating skills, infrastructure and supporting institutions, among others.

Yoshio Sato, Professor, Keio University (Japan), described the growth of FDI by Japanese SMEs, which took off after the Plaza Accord and reached a peak in 1988 and then started to decline. Their

investments were concentrated in Asia. Transnationalization had become a key to the survival of many Japanese firms that had restructured their domestic and trading operations. He foresaw the further transnationalization of Japanese SMEs, with another round of Yen appreciation and increasing competition from the newly industrializing economies.

There were, however, dangers in a headlong rush to invest abroad without adequate preparation, as was the case with many SMEs in the latter 1980s. Information was poor or absent, trained personnel could not be sent overseas, wrong joint venture partners were picked and so on; many of those investments turned out to be unsuccessful.

Thomas A. Gray, President, Center for Small Business Studies (United States), raised an interesting issue: why were United States SMEs so reluctant to invest overseas as compared with SMEs from other countries? Large United States firms were in the vanguard of globalization, but SMEs tended to be relatively domestic-market oriented. This could not be explained by the size of the United States market alone. All the economic indicators pointed to the need to expand overseas where growth was expected to be higher. Part of the reason might be the intense competition within the United States which left SMEs with little energy to expand overseas. Perhaps the formation of the North America Free Trade Agreement would induce them to spread southward into Mexico and the rest of Latin America.

Some of the problems facing Japanese investors were also reviewed. **Fumihiko Adachi**, Associate Professor, Nagoya University (Japan), presented some graphic illustrations of the cultural, linguistic, work-ethic and other problems encountered by Japanese investors in South and East Asia. It was noted, however, that problems reported by executives could be exaggerated if their impressions were not carefully analyzed and weighed. Some of the perceptions might reflect the narrow perspective of Japanese SME investors as much as objective problems in the host countries. In any event, the problems reported were in countries of South-East Asia that were the leading recipients of FDI in the developing world, which implied that many investors must have found ways of coping with them.

Hafiz Mirza, Senior Lecturer, University of Bradford (United Kingdom), discussed how the indigenization of foreign technology could

take place by various means other than FDI, and pointed to joint ventures as a good compromise balancing the objectives of both investors and host countries. "Learning by doing together" was often a useful way to transfer technology. Small and medium-sized enterprises were often more flexible than large firms in using a variety of modes of operation in developing countries.

There was general agreement that Governments in both home and host countries had to facilitate FDI by SMEs. **Melito Salazar**, Governor, Board of Investment of the Philippines, explained how his agency had made special efforts to attract Japanese SMEs, including, among others, by recruiting Japanese language speakers. He suggested that Japan should also make an effort to convince its firms to internationalize its workforce and its attitudes to overseas operations.

A number of participants dealt with the attractions of their respective countries as receivers of foreign investment and stressed the need to attract SME investments (**Márcio Cartier Marques**, Head, Foreign Capital Department, Banco do Brasil, Brazil; **Zhu Guangyao**, Deputy Section Chief, Department of International Trade and Economic Affairs, Ministry of Foreign Trade and Economic Cooperation, China; **Richard R. P. Napitupulu**, Deputy Chairperson, Investment Coordination Board, Indonesia; **Datin Shahidah**, Director, Planning, Research and International Cooperation Division, Malaysian Industrial Development Authority, Malaysia, **Jose Landa**, Vice President, Mexican Investment Board, Mexico; and **Thamrong Mahajchariyawong**, Minister Counsellor, Thai Board of Investment, Royal Thai Embassy in Japan, Thailand). The question of whether FDI was "exporting jobs" from the home countries was answered with the response that, in a highly competitive world, the alternative to not investing was losing the market.

The proceedings of the second day of the Forum started with a discussion of the support given to Osaka-based SMEs by the Osaka Prefectural Government (**Ryosuke Uranishi**, Vice Governor), the Osaka City Government (**Takafumi Isomura**, Deputy Mayor) and the Osaka Chamber of Commerce and Industry (**Susumu Matsumoto**, Vice Chairperson). Several interesting points emerged in the course of the morning session. First, there was an important array of instruments and initiatives, both public and private, to assist FDI by SMEs from Osaka. Local businesspersons were exposed to information, in-

teraction and visits, both abroad and from foreign business in Osaka. There was a network of offices overseas to facilitate Japanese business, with an impressive record. Apart from other programmes, there were enormous investment and infrastructure to promote the globalization of SMEs.

The limited entry of SMEs in outward FDI was noted and it was emphasized that it should be promoted by overcoming the linguistic and other barriers to overseas investments. Perhaps more could also be done to educate SMEs, inform them about cultural and other differences and help them to overcome them before they went overseas. However, many Japanese SMEs were already highly transnational. For example, the Osaka-based Showa Plastics Company Ltd., Japan, headed by **Kenzo Nakagawa**, employed 1,300 people abroad and only 160 at home. A similar degree of transnationalization had already spread to a number of other Japanese enterprises, and that was extremely encouraging. This represented the new breed of aggressive overseas investors.

In general, the support for SMEs was perhaps the most developed in Japan among all of the developed countries. In fact, in 1990, the Office of Technology Assessment of the United States Senate prepared a report entitled *Making Things Better*, in which the support for SMEs in Japan was compared with that in the United States. The report provided data indicating that the amount of dollars spent for promoting SMEs was 30 times larger in Japan than in the United States. It was noted that some of the reasons as regards why United States SMEs were less able to invest overseas, a question raised earlier by **Thomas A. Gray**, may lie in that fact, namely the enormous support that Japan had already provided to its SMEs in terms of information and technology.

During the session, **David N. Dinkins**, Mayor of New York, and **Emily P. McKhann**, Acting Commissioner, New York City Commission for the United Nations, Consular Corporations and International Business, addressed the Forum on video-tape and emphasized, among others, the need for cooperation and promotion of investments by SMEs. **Lee Suan Hiang**, Deputy Managing Director, Economic Development Board of Singapore, spoke in a video-taped presentation about the pro-active policies that made it easier for SMEs to invest by providing a one-stop shop and the necessary infrastructure. He observed

that Singapore was also adopting a programme of helping local firms to become better partners to SMEs, which illustrated the point made the previous day about active and passive firms. This was a very interesting initiative which other developing countries might like to study.

In the afternoon session, a comprehensive review was provided by **Padma Mallampally**, Chief, Development Policy Analysis Unit, UNCTAD Programme on Transnational Corporations, on the problems facing SMEs and the existing institutions and policies to support them. An interesting debate then emerged around the fact that there were obvious market failures which confronted SMEs in their transnationalization. It was obvious that they had less information, less finances and other limitations as compared with larger firms. There was a huge array of governmental institutions that did offer assistance to SMEs. However, it was not clear how effective this assistance was and it appeared that it could be made more effective. Some suggestions were made as regards how to make government assistance more effective — for example, much more targeting and much more addressing of industry-specific and firm-specific needs. **David B. Audrestch**, Director, Wissenschaftszentrum fuer Sozialforschung Berlin (Germany), noted that policies by public institutions were often ineffective. They should reach a wide net of SMEs and meet their specific needs. Such institutional support was very important but it needed to be refocused and made much more targeted.

Ichiro Shirikawa, Director-General, Guidance Department of Small and Medium Enterprise Agency (Japan), talked about a large array of measures that existed to support Japanese SME investors. Such support included loans and free information services. The Japan External Trade Organization, for example, helped affiliates of small and medium-sized TNCs obtain legal and other services. Many such services represented substantial help to SME investors. **Hubert H. Schwetz**, Director for Internationalization and Technology Transfer, Bundeskammer der Gewerblichen Wirtschaft (Austria), provided examples of measures in Austria for assisting SMEs, including financing and provision of expertise and information. Those services would be augmented in the future. **Yoshio Uchida**, Executive Vice President, Japan Small Business Corporation, numerated various services offered by his institute.

The final session of the Forum dealt with policy recommendations. A concise and constructive presentation on needs and scope for assistance to SMEs was made by **Carlos Fortin**. The role of international organizations was stressed and it was suggested that more work was needed on how international organizations could be made business- and market-oriented. This was referred to as "expert systems" by **Hafiz Mirza** in the discussion that followed. **Carlos Fortin** listed six areas of importance in programmes to promote FDI by SMEs: awareness of opportunity; information that was digestible for firms; pre-project assistance; partner selection; reduction of costs of technology transfer; and financial assistance.

Atsushi Murakami, Professor and Dean, Graduate School of International Cooperation, Kobe University (Japan), provided a systematic survey of the large number of initiatives that existed in Japan to promote FDI by SMEs and noted the need for coordination of various efforts. He also emphasized the need to differentiate between Japanese SMEs that are linked to large corporations and independent small and medium firms. It was noted that the former may have advantages with regards to FDI, particularly in many areas of Asia, that the latter lacked.

In the closing session, **Sanjaya Lall** and **Hideichiro Nakamura**, Professor and Dean, Tama University, summarized the whole conference. The participants then heard the Osaka Declaration read by **Ryosuke Uranishi**, Vice Governor of the Osaka Prefectural Government, and the Forum was concluded with a statement by **Carlos Fortin**.

II. Text Of *The Osaka Declaration*

International Forum on Small and Medium-Sized Enterprises and Development: The Role of Foreign Direct Investment

Osaka Declaration

The United Nations-Osaka Forum held in Osaka in September 1993 focused on the significance of foreign direct investment by small and medium-sized enterprises and the future direction of this investment. Extensive discussions were held based on research findings and policy proposals presented by the UNCTAD Programme on Transnational Corporations.

The forum agreed upon the following principles:

1. In the global economy of today, interdependence among nations has increased considerably. This demands that every nation of the world makes a commitment to economic cooperation, the maintenance and enhancement of free trade and an unceasing effort to achieve a balanced expansion of the world economy.
2. Foreign direct investment constitutes an essential factor in this process. Each nation needs to take action to encourage foreign direct investment, thereby revitalizing the world economy, promoting the development of the developing countries and enhancing cooperation between developed and developing countries.
3. Small and medium-sized enterprises (and not only large ones) are important foreign investors. Typical features of small firms — such as creativity, innovation, flexibility and special skills associated with small scale management — are particularly important for the development process of developing countries. In this respect, the impact of these firms is different from that of large ones. In many cases, small and medium-sized investors also support the activities of large corporations.

4. Apart from such general problems as country risks, many small and medium-sized enterprises are faced with obstacles to their transnationalization process that are not always encountered by large firms. In particular, they include issues related to the raising of capital, the availability of personnel and access to information and knowledge. To overcome these impediments, small and medium-sized enterprises need support to facilitate their foreign direct investment.
5. Based on a common recognition of these issues, the United Nations-Osaka Forum offers the following proposals to encourage further foreign direct investment by small and medium-sized enterprises.
   - The current financial support system (including long-term, low interest-rate loans) should be improved in order to facilitate foreign direct investment by small and medium-sized enterprises, especially by firms that are otherwise not able to obtain the required capital.
   - Effective consultancy services by home countries, including a funding-support service, would be desirable to assist business planning and feasibility studies.
   - Foreign direct investment by small and medium-sized enterprises needs well-qualified personnel. Programmes for providing technical, managerial, language and other business education to employees of such firms are required to help them operate internationally.
   - Exchanges of knowledge, information and experience should be encouraged between research institutes with the aim of supporting small businesses in developed and developing countries. Where appropriate, joint research should be facilitated.
   - To ensure effective personnel training and to promote mutual understanding in developing countries, industrial parks should be designed as comprehensive facilities to include technological, language and cultural training to promote better cooperation between the private and public sectors of both home and host countries.

- Osaka's programme on the promotion of activities with business-partner cities, as well as various other activities such as hosting Global Business Opportunities Convention and operating joint overseas offices to act as incubator facilities are effective ways to increase foreign direct investment by small and medium-sized enterprises. Other national and local Governments should undertake such efforts.
- Host countries themselves should create an effective enabling framework, establish support programmes for small and medium-sized enterprises and actively promote the cooperation between domestic and foreign small and medium-sized enterprises.

6. Following up on the United Nations-Osaka Forum, the UNCTAD Programme on Transnational Corporations will:
   - Disseminate widely the documentation prepared for this Forum as well as its results.
   - Maintain its database on small and medium-sized transnational corporations as an information source for identifying potential small and medium-sized investors and consider the creation of a reverse database on companies in developing countries that may wish to have transactions with small and medium-sized enterprises in developed countries.
   - Undertake research on transfer of technology and the locational determinants of, and constraints to, foreign direct investment by small and medium-sized enterprises, including such firms in the services sector.
   - Establish links with relevant institution in home developed countries and serve as a clearing house for the dissemination of information on small and medium-sized transnational corporations.

The proposals presented here mark the first step towards greater efforts to assist in the transnationalization of small and medium-sized enterprises. Governments, municipalities, economic organizations and small and medium-sized enterprises are invited to advance this process in every way possible.

III. The Programme of the Conference

PROGRAMME

International Forum
on

SMALL AND MEDIUM-SIZED ENTERPRISES AND DEVELOPMENT: THE ROLE OF FOREIGN DIRECT INVESTMENT

Organized by

United Nations Conference on Trade and Development,
Programme on Transnational Corporations
Osaka Prefectural Government
Osaka City Government
Osaka Chamber of Commerce and Industry

with the support of
Ministry of Foreign Affairs, Japan
and
Small and Medium Enterprise Agency, Japan

at

The Royal Hotel
Osaka, Japan, 7 — 10 September 1993

United Nations · Osaka Prefectural Government · Osaka City Government · Osaka Chamber of Commerce and Industry

Objectives:

1. To raise the awareness of the importance of small and medium-sized enterprises in the field of foreign direct investment.
2. To discuss problems and difficulties that small and medium-sized enterprises encounter in their transnationalization process and ways and means to increase their contribution to host developing countries.
3. To evaluate existing government measures and programmes and to examine options to promote the activities of small and medium-sized transnational corporations, in particular in developing countries.

Background:

Small and medium-sized transnational corporations have been important actors in the dramatic increases in outflows of foreign direct investment since the mid-1980s. This suggests that foreign direct investment is not only an integral part of corporate growth strategies, but also that these enterprises can be alternatives to large transnational corporations in the transfer of productive resources, thus increasing competition, strengthening the bargaining position of developing countries and contributing to the development of host countries.

Even if the impact of small and medium-sized transnational corporations on host developing countries is small in quantitative terms, the effects of their investments can be different from those of large transnational corporations. For example, the technology offered by small and medium-sized transnational corporations tends to be associated with small-scale operations; the labour-intensity of foreign affiliates in developing countries may be higher for small and medium-sized transnational corporations than for large ones; and the positive impact on the balance of payments can be significant. Thus, small and medium-sized transnational corporations can contribute to the development of host developing countries. This, in turn, should be reflected in national economic policies of both host and home countries.

The Programme on Transnational Corporations of the United Nations Conference on Trade and Development has completed a study on the impact, role and policy implications of small and medium-sized transnational corporations in the economic development of developing countries. This study will be used as the principal background documentation at the conference.

7 SEPTEMBER 1993

13:00 — 16:00 **PRE-CONFERENCE MEETING OF ORGANIZERS, SPEAKERS AND DISCUSSANTS**

18:00 — 20:00 **WELCOME RECEPTION**

8 SEPTEMBER 1993

10:00 — 10:30 **OPENING CEREMONY**

Moderator: **Yoshio Sato,** Professor, Keio University, Japan

Opening address by **Carlos Fortin**, Deputy to the Secretary-General of UNCTAD and Director-in-Charge of the Programme on Transnational Corporations

Opening address by **Kazuo Nakagawa,** Governor, Osaka Prefecture

Opening address by **Masaya Nishio,** Mayor, Osaka City

Opening address by **Yoshifumi Matsuda**, Ambassador Extraordinary and Plenipotentiary resident in Osaka, Ministry of Foreign Affairs, Japan

Opening address by **Hideki Osada**, Director-General, Small and Medium Enterprise Agency, Japan

10:30 — 12:10 **KEYNOTE SPEECHES**

10:30 — 11:20 "Small and medium-sized enterprises and industrialization", **Sanjaya Lall**, Senior Research Officer, University Lecturer and Fellow, Oxford University, United Kingdom

11:20 — 12:10 "Future prospects in the economy", **Hiroshi Takeuchi,** Chairman, LCTB Research Institute Inc., Japan

12:10 — 13:45 **LUNCH**

13:45 — 15:30 **SESSION I. SMALL AND MEDIUM-SIZED ENTERPRISES IN THE WORLD ECONOMY AND FUTURE PROSPECTS**

Development and perspectives of small and medium-sized enterprises in the world economy: their foreign direct investment, their transnationalization process, characteristics of small and medium-sized transnational corporations and future perspective are presented in this

Chairperson: **Kikutaro Takizawa**, Emeritus Professor, Nagoya University and Professor, Chukyo University, Japan

13:45 — 14:00 "Trends in foreign direct investment", **Karl P. Sauvant**, Chief, Research and Policy Analysis Branch, Programme on Transnational Corporations, UNCTAD

14:00 — 14:15 "Small and medium-sized enterprises and the perspectives of their globalization", **Yoshio Sato**, Professor, Keio University, Japan

14:15 — 15:30 Discussion

Discussants:

Jaime Campos, Director, Centro do Estudios de Desarrollo y Relaciones Económicas Internacionales, Argentina

Thomas A. Gray, Resident Fellow, National Federation of Independent Business Foundation and President, Center for Small Business Studies, United States

Kayoko Kitamura, Senior Researcher, Institute of Developing Economies, Japan

Thamrong Mahajchariyawong, Minister Counseller (Investment), Thai Board of Investment, Royal Thai Embassy in Japan, Thailand

15:30 — 15:45 **COFFEE BREAK**

15:45 — 17:30 **SESSION II. SMALL AND MEDIUM-SIZED TRANSNATIONAL CORPORATIONS IN DEVELOPING COUNTRIES**

Activities and characteristics of foreign affiliates of small and medium-sized transnational corporations in developing countries, in contrast to those of large transnational corporations, are examined. Discussion of possibilities for the expansion of foreign direct investment by small and medium-sized enterprises in developing countries.

Chairperson: **Akira Nishikiori**, Advisor, National Federation of Small Business Associations, Japan

15:45 — 16:00 "The contribution to host developing countries by small and medium-sized transnational corporations", **Masataka Fujita**, Transnational Corporations Affairs Officer (Project Director), Programme on Transnational Corporations, UNCTAD

16:00 — 16:15 "Technology transfer to developing countries by small and medium-sized enterprises", **Jaime Campos**, Director, Centro do Estudios de Desarrollo y Relaciones Económicas Internacionales, Argentina

16:15 — 17:30 Discussion

Discussants:

Fumihiko Adachi, Associate Professor, Nagoya University, Japan

Márcio Cartier Marques, Head, Foreign Capital Department, Banco Central do Brasil, Brazil

Hafiz Mirza, Senior Lecturer, University of Bradford, United Kingdom

Melito Salazar, Governor, the Board of Investment, the Philippines

9 SEPTEMBER 1993

10:00 — 12:00 **SESSION III. COMPANY AND LOCAL GOVERNMENTAL EXPERIENCES WITH RESPECT TO FOREIGN DIRECT INVESTMENT: THE CASE OF OSAKA**

Experiences of some Osaka-based small and medium-sized enterprises and Osaka authorities with foreign direct investment. Problems and solutions will be discussed.

Chairperson: **Mitsuru Tanaka**, Professor, Kansai University, Japan

Discussants:

Ryosuke Uranishi, Vice Governor, Osaka Prefecture

Takafumi Isomura, Deputy Mayor, Osaka City

Susumu Matsumoto, Vice Chairman, Osaka Chamber of

Commerce and Industry, and President, Matsumoto Shoji Co., Ltd.

Padma Mallampally, Chief, Development Policy Analysis Unit, Programme on Transnational Corporations, UNCTAD

Wilfred C. Wakely, Commissioner, Trade and Investment and Director, Osaka Office, British Colombia Trade Development Corporation, Canada

Kenzo Nakagawa, President of Showa Plastics Company Ltd., Japan

TV conference participants:

David N. Dinkins, Mayor of New York, United States

Emily P. McKhann, Acting Commissioner, New York City Commission for the United Nations, Consular Corps and International Business, United States

Lee Suan Hiang, Deputy Managing Director, Economic Development Board, Singapore

12:00 — 13:30 **LUNCH**

13:30 — 15:00 **SESSION IV. HOME-COUNTRY POLICIES TOWARDS FOREIGN DIRECT INVESTMENT BY SMALL AND MEDIUM-SIZED ENTERPRISES**

Policies directed towards the globalization of small and medium-sized enterprises from developed countries will be discussed. An evaluation of initiatives and programmes to promote foreign direct investment by small and medium-sized enterprises will be made.

Chairperson: **Norio Yanagihara**, Professor, Kyoto Sangyo University, Japan

13:30 — 13:45 "Initiatives and programmes to promote foreign direct investment by small and medium-sized enterprises", **Padma Mallampally**, Chief, Development Policy Analysis Unit, Programme on Transnational Corporations, UNCTAD

13:45 — 14:00 "Home-country policies towards foreign direct investment by small and medium-sized enterprises", **Ichiro Shirakawa**, Director-General, Guidance Department, Small and Medium Enterprise Agency, Japan

14:00 — 15:00 Discussion

Discussants:

Zoltan J. Acs, Harry Y. Wright Professor, University of Baltimore, United States

David B. Audretsch, Director, Wissenschaftszentrum für Sozialforschung Berlin, Germany

Hubert H. Schwetz, Director for Internationalization and Technology Transfer, Bundeskammer der Gewerblichen Wirtschaft, Austria

Datin Shahidah, Director, Planning, Research and International Cooperation Division, Malaysian Industrial Development Authority, Malaysia

15:00 — 15:15 **COFFEE BREAK**

15:15 — 16:55 **SESSION V. POLICY RECOMMENDATIONS FOR THE PROMOTION OF FOREIGN DIRECT INVESTMENT BY SMALL AND MEDIUM-SIZED ENTERPRISES**

Policy options to enhance the contribution by small and medium-sized transnational corporations to economic development will be explored.

Chairperson: **Eiji Ogawa**, Professor and Dean, Nagoya University and Secretary-General of the Japan Association for Small Business Studies, Japan

15:15 — 15:30 "Policy options to promote foreign direct investment by small and medium-sized enterprises into developing countries", **Carlos Fortin**, Deputy to the Secretary-General of UNCTAD and Director-in-Charge of the Programme on Transnational Corporations

15:30 — 15:45 "Present status, problems and policy regarding the globalization of small and medium-sized enterprises", **Atsushi Murakami**, Professor and Dean, Graduate School of International Cooperation, Kobe University, Japan

15:45 — 16:55 Discussion

Discussants:

Thomas A. Gray, Resident Fellow, National Federation of Independent Business Foundation and President, Center for Small Business Studies, United States

Jose Landa, Vice President, Mexican Investment Board, Mexico

Hafiz Mirza, Senior Lecturer, University of Bradford, United Kingdom

Richard R.P. Napitupulu, Deputy Chairperson, Investment Coordinating Board, Indonesia

Yoshio Uchida, Executive Vice President, Japan Small Business Corporation, Japan

Zhu Guangyao, Deputy Section Chief, Department of International Trade and Economic Affairs, Ministry of Foreign Trade and Economic Cooperation, China

16:55 — 17:10 **COFFEE BREAK**

17:10 — 18:10 **CLOSING SESSION**

Chairperson: **Carlos Fortin**, Deputy to the Secretary-General of UNCTAD and Directorin-Charge of the Programme on Transnational Corporation's

17:10 — 17:30 "Small and medium-sized enterprises, foreign direct investment and development: a summary and assessment", **Sanjaya Lall**, Fellow, Oxford University, United Kingdom

17:30 — 17:50 "Small and medium-sized enterprises, foreign direct investment and development: a perspective from small and medium-sized enterprises", **Hideichiro Nakamura**, Professor and Dean, Tama University, Japan

17:50 — 18:05 Adoption of the Osaka Declaration, **Ryosuke Uranishi**, Vice Governor, Osaka Prefecture

18:05 — 18:10 Closing statement, **Carlos Fortin**, Deputy to the Secretary-General of UNCTAD and Director-in-Charge of the Programme on Transnational Corporations

18:10 — 18:40 **PRESS CONFERENCE**

19:00 — 21:00 **FAREWELL PARTY**

10 SEPTEMBER 1993

FIELD TRIP

8:30 — 14:00 Visit to a local factory and the Osaka Aquarium

SELECT LIST OF PUBLICATIONS OF THE UNCTAD PROGRAMME ON TRANSNATIONAL CORPORATIONS

A. INDIVIDUAL STUDIES

Management Consulting: A Survey of the Industry and Its Largest Firms. 100 p. Sales No. E.93.II.A.17. $25.

Transnational Corporations: A Selective Bibliography, 1991-1992. 736 p. Sales No. E.93.II.A.16. $75. (English/French.)

Small and Medium-sized Transnational Corporations: Role, Impact and Policy Implications. 242 p. Sales No. E.93.II.A.15. $35.

World Investment Report 1993: Transnational Corporations and Integrated International Production. 290 p. Sales No. E.93.II.A.14. $45.

World Investment Report 1993: Transnational Corporations and Integrated International Production. An Executive Summary. 31 p. ST/CTC/159. Free-of-charge.

Foreign Investment and Trade Linkages in Developing Countries. 108 p. Sales No. E.93.II.A.12. $18.

World Investment Directory 1992. Volume III: Developed Countries. 532 p. Sales No. E.93.II.A.9. $75.

Transnational Corporations from Developing Countries: Impact on Their Home Countries. 116 p. Sales No. E.93.II.A.8. $15.

Debt-Equity Swaps and Development. 150 p. Sales No. E.93.II.A.7. $35.

From the Common Market to EC 92: Regional Economic Integration in the European Community and Transnational Corporations. 134 p. Sales No. E.93.II.A.2. $25.

World Investment Directory 1992. Volume II: Central and Eastern Europe. 432 p. Sales No. E.93.II.A.1. $65. (Joint publication with ECE.)

The East-West Business Directory 1991/1992. 570 p. Sales No. E.92.II.A.20. $65.

World Investment Report 1992: Transnational Corporations as Engines of Growth: An Executive Summary. 30 p. Sales No. E.92.II.A.24.

World Investment Report 1992: Transnational Corporations as Engines of Growth. 356 p. Sales No. E.92.II.A.19. $45.

World Investment Directory 1992. Volume I: Asia and the Pacific. 356 p. Sales No. E.92.II.A.11. $65.

Climate Change and Transnational Corporations: Analysis and Trends. 110 p. Sales No. E.92.II.A.7. $16.50.

Foreign Direct Investment and Transfer of Technology in India. 150 p. Sales No. E.92.II.A.3. $20.

The Determinants of Foreign Direct Investment: A Survey of the Evidence. 84 p. Sales No. E.92.II.A.2. $12.50

The Impact of Trade-Related Investment Measures on Trade and Development: Theory, Evidence and Policy Implications. 108 p. Sales No. E.91.II.A.19. $17.50. (Joint publication with UNCTAD.)

Transnational Corporations and Industrial Hazards Disclosure. 98 p. Sales No. E.91.II.A.18. $17.50.

Transnational Business Information: A Manual of Needs and Sources. 216 p. Sales No. E.91.II.A.13. $45.

World Investment Report 1991: The Triad in Foreign Direct Investment. 108 p. Sales No.E.91.II.A.12. $25.

Transnational Corporations: A Selective Bibliography, 1988-1990. 618 p. Sales No.E.91.II.A.10. $65. (English/French.)

Transnational Corporations in South Africa: A List of Companies with Investments and Disinvestments. 282 p. Sales No. E.91.II.A.9. $50.00.

University Curriculum on Transnational Corporations *

Vol. I ***Economic Development***. 188 p. Sales No. E.91.II.A.5. $20.00.
Vol. II ***International Business***. 156 p. Sales No. E.91.II.A.6. $20.00.
Vol. III ***International Law***. 180 p. Sales No. E.91.II.A.7. $20.00.
* The Set: Sales No. E.91.II.A.8. $50.00.

Directory of the World's Largest Service Companies: Series I. 834 p. ISSN 1014-8507. (Joint publication, UNCTC/Moody's Investors Service, Inc.) $99.

The Challenge of Free Economic Zones in Central and Eastern Europe. 444 p. Sales No. E.90.II.A.27. $75.

Accountancy Development in Africa: Challenge of the 1990s. 206 p. Sales No. E.91.II.A.2. $25. (Also available in French.)

Transnational Banks and the International Debt Crisis. 157 p. Sales No. E.90.II.A.19. $22.50.

Transborder Data Flows and Mexico: A Technical Paper. 194 p. Sales No. E.90.II.A.17. $27.50.

Debt Equity Conversions: A Guide For Decision-Makers. 150 p. Sales No. E.90.II.A.22. $27.50.

Transnational Corporations and Manufacturing Exports from Developing Countries. 124 p. Sales No. E.90.II.A.21. $25.

Transnational Corporations in the Transfer of New and Emerging Technologies to Developing Countries. 141 p. Sales No. E.90.II.A.20. $27.50.

Transnational Corporations, Services and the Uruguay Round. 252 p. Sales No. E.90.II.A.11. $28.50.

The Uruguay Round: Services in the World Economy, 220 p., ISBN 0-8213-1374-6. (Joint publication, UNCTC/World Bank.) $13.50.

Transnational Corporations in the Plastics Industry. 167 p. Sales No. E.90.II.A.1. $20.

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